

VZCZCXRO0441

PP RUEHAG RUEHAST RUEHDA RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA RUEHLN
RUEHLZ RUEHPOD RUEHROV RUEHSR RUEHVK RUEHYG
DE RUEHRK #0221 2811730
ZNR UUUUU ZZH
P 071730Z OCT 08
FM AMEMBASSY REYKJAVIK
TO RUEHC/SECSTATE WASHDC PRIORITY 3830
INFO RUCPDO/USDOC WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
RUEHZL/EUROPEAN POLITICAL COLLECTIVE

UNCLAS REYKJAVIK 000221

USDOC FOR LEAH MARKOWITZ
TREASURY FOR LAWRENCE NORTON
STOCKHOLM FOR FCS

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [PGOV](#) [IC](#)

SUBJECT: ICELANDIC FINANCIAL CRISIS: AS EMERGENCY POWERS GO INTO
EFFECT, RUSSIANS OFFER LOAN

REF: Reykjavik 219

¶1. (U) Summary: As the financial crisis and uncertainty in Iceland continues, the Russian offer of a 4 billion Euro (5.4 billion USD) loan is getting considerable attention. The Prime Minister and Minister of Commerce held a joint press conference this morning to update on the Government's takeover of Landsbanki and made polite digs at foreign governments who did not offer assistance. The Minister of Industry (current Acting Foreign Minister) was not so diplomatic in a morning radio interview and accused the U.S. of giving Iceland the middle finger. Leader of opposition Progressive Party Gudni Agustsson asked the Althingi (Parliament) to send Putin a thank you note and declared that President Bush did not turn out to be a friend when needed. The Prime Minister's office has denied British media speculations that the price of the Russian loan would be landing rights at the former US Naval Air Station in Keflavik. End Summary.

¶2. (U) Prime Minister Geir H. Haarde and Minister of Commerce Bjorgvin G. Sigurdsson held a joint press conference late this morning to provide updates on the current financial crisis. Sigurdsson said the Financial Supervisory Authority of Iceland (FME) and Landsbanki bank had been meeting all night and the FME has taken control of Landsbanki under the emergency powers granted by Althingi (Parliament). The bank will be split into two entities, one that deals with domestic operations and another that deals with foreign operations. Sigurdsson described it as a necessary step to ensure the continued orderly operation of domestic banking. After speaking in Icelandic with local press, Haarde took questions in English from the mostly British reporters who were concerned with what these developments mean for the depositors of Icebank, a subsidiary of Landsbanki with large operations in the UK. Haarde said that he could not really answer, but he thought the assets of the bank would cover these deposits and depositors need not worry.

¶3. (U) At the end of the conference, a reporter asked about the pending currency loan from Russia and Haarde responded that Iceland had requested loans and other help from its friends; Nordic countries had responded positively, but others had not. He added that in a situation like that, Iceland must look for new friends. Ossur Skarphedinsson, Minister of Industry and currently the Acting Foreign Minister, was more blunt in a morning radio interview. He said Iceland had looked to its friends for assistance on the financial crisis and some turned out to be not so much of a friend, like the U.S. He said it hurt, and added that after about 50 years of a special relationship with the U.S., the only thing Iceland got now was the middle finger. Adding to the US bashing was Gudni Agustsson, Chairman of the Progressive party (in opposition), who wanted the Althingi and the government to send Putin a thank you note for his support to the Icelandic nation. Agustsson said that Bush did not turn out to be a friend when needed.

¶4. (U) It is still unclear if Iceland will take Russia's offer of a 4 billion Euro (5.4 billion USD) loan. The Icelandic Central Bank reported that a team will go to Moscow to work out the details. The British publication Spectator immediately reported on its website that the price for the loan was the ability of Russia's military to

use the former U.S. military base in Iceland. Asked at the press conference whether the Russians would get access to any base facilities in return for a loan, the Prime Minister said no. His Foreign Policy Chief assured the Ambassador that the government regarded the loan offer as "friendly economic gesture from Russia," but there was no connection to Keflavik and there has been no change in Iceland's foreign or security policy.

VAN VOORST